



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

May 25, 2004

H.R. 4345

A bill to amend title 38, United States Code, to increase the maximum amount of home loan guaranty available under the home loan guaranty program of the Department of Veterans Affairs, and for other purposes

As ordered reported by the House Committee on Veterans' Affairs on May 19, 2004

SUMMARY

H.R. 4345 would increase the maximum amount that the Department of Veterans Affairs (VA) can guarantee on a home loan made to a veteran by indexing this amount to the Freddie Mac conforming loan limit for single-family homes. Such loans have an estimated negative subsidy rate because of relatively low default rates and the up-front fees that VA charges. As a result, CBO estimates that enacting the legislation would lower direct spending for the VA housing program by \$288 million over the 2005-2014 period, but would not affect administrative expenses for the program, which are provided for in annual appropriations acts.

H.R. 4345 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4345 is shown in the following table. The direct spending savings of this legislation fall within budget function 700 (veterans benefits and services).

	By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN DIRECT SPENDING										
Estimated Budget Authority	-39	-41	-42	-42	-43	-44	-45	*	1	9
Estimated Outlays	-39	-41	-42	-42	-43	-44	-45	*	1	9
NOTE: * = less than \$500,000.										

BASIS OF ESTIMATE

H.R. 4345 would increase the maximum loan guarantee amount on VA home loans by indexing this amount to the Freddie Mac conforming loan limit for single-family homes, which is adjusted annually to reflect home prices. Under current law, the maximum loan guaranty is \$60,000 which effectively creates a maximum loan amount of \$240,000. (For large loan amounts, VA can guarantee no more than 25 percent of the loan amount.) The bill would raise the maximum loan guarantee amount to 25 percent of the Freddie Mac conforming loan limit (\$333,700 in 2004).

The bill would lower direct spending on the veterans' housing program by \$208 million over the 2005-2009 period and \$288 million over the 2005-2014 period, but these estimated savings are the net effect of three individual program effects (two with savings and one with costs), as explained below.

Based on information from VA and previous increases in the loan guaranty amount, CBO estimates that the bill would result in 11,000 new guaranteed loans a year over the 2005-2014 period. In addition, roughly 4,000 guaranteed loans each year would now be made with higher loan amounts—these would not be new borrowers, but veterans who would no longer need a downpayment (or as large a downpayment) to qualify for the VA loan guarantee. CBO and VA estimate that the VA loan guarantees currently have a negative subsidy rate of about -0.3 percent, reflecting relatively low default rates and up-front fees that together produce a negative subsidy rate.

CBO estimates that the added loans would lower direct spending on guaranteed loans by an average of \$42 million a year over the 2005-2011 period (the guaranteed loan housing program has a negative subsidy rate over this period), and increase direct spending by \$10 million over the 2012-2014 period. Savings would end after 2011 because, under current law, certain loan fees expire in 2012, resulting in higher subsidy rates beginning in that year.

Second, CBO expects some of those 15,000 loans will become delinquent and go to foreclosure. When a guaranteed loan goes into foreclosure, VA often acquires the property and issues a new direct loan (called a vendee loan) when the property is sold. CBO estimates that the added vendee loans would lower direct spending by less than \$500,000 in 2005 and by \$3 million in 2014 (the vendee program also has a negative subsidy rate).

Finally, VA sells most vendee loans on the secondary mortgage market and guarantees their timely repayment. Based on information from VA, CBO estimates the subsidy cost of such loan sales would be less than \$500,000 through 2007 and would eventually reach \$4 million in 2014.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 4345 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On May 18, 2004, CBO transmitted a cost estimate for H.R. 4345 as introduced on May 12, 2004. The two versions of H.R. 4345 are identical, as are the estimated savings.

On April 28, 2004, CBO transmitted a cost estimate for H.R. 4065, the Veterans Housing Affordability Act of 2004, as introduced on March 30, 2004. H.R. 4345 is similar to H.R. 4065, but would increase the maximum loan guarantee amount by a slightly higher amount and, as a result, would result in slightly larger savings.

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